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| HIGH LIFE HIGHLAND REPORT TO BOARD OF DIRECTORS14 December 2016 | AGENDA ITEM 12 REPORT No HLH30/16 |

## **FINANCE REPORT - Report by Chief Executive**

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| **Summary**This report provides Directors with an update on the financial performance of High Life Highland for the period ending 31 October 2016.It is recommended that Directors note:1. the current financial position of High Life Highland as detailed in **Appendix A;**
2. the financial results for the 7 months to October 2016 report a surplus of £18,273;
3. the projected final out-turn for the year is a surplus to budget of c £25K;
4. the award of contracts to The Design Concept (x2) Fitness Training Scotland, Achins Bookshop, Bibliotheca, DUFI Art (x2), Less than Nothing Production, Fuzzy Duck, DP Digital Media;
5. the update on VAT;
6. the update on the Highland Folk Museum Phase 3 project; and
7. approve the Financial Statements for the year end 31 March 2016 which are represented.
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| **1.** | **Business Plan Contribution** |
| 1.1 | This report supports the highlighted Business Outcome from the High Life Highland (HLH) Business Plan:1. **To advance sustainable growth and financial sustainability**
2. Deliver the Service Delivery Contract with THC
3. Improving staff satisfaction
4. Improving customer satisfaction
5. A positive company image
6. Services designed around customers and through market opportunities
7. Sustain a good health and safety performance
8. A trusted partner
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| **2.** | **Background** |
| 2.1 | Directors of HLH receive a Finance Report on a quarterly basis. The primary purpose of the report is to summarise the financial performance of the organisation and its subsidiary.  |
| **3.** | **Financial Performance to October 2016** |
| 3.13.23.3 | The out-turn figure for the period to October 2016 has been prepared. HLH’s consolidated financial performance for the year is summarised by the 9 business areas at **Appendix A.** The out-turn for the period is split by cost category (revenues, staff costs and other costs) at **Appendix B**. A commentary on the major variances (over £5K) is provided at**Appendix C**. |
| **4.** | **VAT Update** |
| 4.14.2 | Work with Ernst and Young (E&Y) on VAT and payments due to HMRC has been completed for the four years up to 2014/15 and have been submitted to HMRC detailing the process applied and the associated liability due for the years concernedHMRC may agree with E&Y’s calculations or may determine their own position. |
| 4.2.14.2.2 | The VAT liabilities, for the tax years (which are from June – May) are as follows:

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| **TAX YEAR** | **Status** | **Total per tax year** |
| 2012.13 | PAID - VAT | £89,344 |
| 2013.14 | Submitted - VAT | £146,442 |
| 2014.15 | Submitted -VAT | £152,507 |
|  |  | £388,294 |
| 2015.16 | Estimate To be finalised - VAT | £150,000 |
|  | Estimate Interest for the 4 years | £48,227 |
|  | Total Liability | £586,520 |
|  | Amount accrued 15.16 | (198,000) |
|  | Adjustment Required. | £388,520 |

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| 4.2.34.2.44.2.5**5.0**5.15.25.35.3.1 | The Revised Financial Statements to 31 March 2016 has provided for the liability in full up to and including 2015/16.E&Y have made a number of recommendations with regard to the treatment of income on the calculation and reporting of VAT moving forward which should ensure that this situation does not arise again. HLH has also contracted E&Y to provide an online help desk service.The VAT issue and the following item were discussed at the Finance and Audit Committee meeting on the 14 November 2016. Donald Forsyth, Partner Ernst & Young attended the meeting.**Financial Statements to 31 March 2016 – Presented for approval and re-signing.**The Financial Statements which were approved by the Board on the 23 August are re-presented for approval and sign off. Mr Forsyth, Partner, Ernst & Young will attend the meeting at 2pm.Mr Forsyth attended the Finance and Audit Committee meeting on the 14 November 2016 and explained the reason for the delay in signing the final accounts This was due to an internal audit in Ernst and Young being delayed by a period of staff illness. As a consequence it was now necessary to adjust the Financial Statements for the VAT liabilities relating to prior years as the VAT review has advanced with four years liability submitted to HMRC. The 2015/16 liability was already accrued.

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| Revised Financial Statements and VAT AdjustmentIncome and Expenditure account adjustment for the **Financial** **Years** is £375,209 for prior years (2013-2015) |  |  |
| Expenditure on charitable activities was understated ( Vat liability and Interest)as follows**:** |
| Year ending March 2013 | £63,465 |  |
| Year ending March 2014 | £160,175 |  |
| Year ending March 2015 | £151,569 |  |

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| 5.3.25.3.2 | An additional accrual for interest of £13,311 was required for the financial year 2015/16.Total Adjustment in Financial Statements is £388,520 (£375,509 for years 2013-15 and £13,311 for 2015/16)Note: The liabilities noted in Paragraph 4.2.1 are the VAT amounts due in respect of the Tax year which ends in May which have been submitted to HMRC.The liabilities and Impact on Reserves in 5.3.1 are the amounts prorated to the financial year ending March and an interest accrual.The Impact on **Reserves** is as follows:

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|  | **Previously reported reserves** | **Revised reserves per Accounts** |
| Closing Unrestricted Reserves |  |  |
| *Unrestricted funds Excl. Pension adj.* | 1,303,093 | 914,573 |
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| IL | 784,999 | 784,999 |
| **HLH** | 518,094 | 129,574 |
|  | **1,303,093** | **914,573** |
|  |  |  |
| Reduction in Reserves |  | (388,520) |
|  |  |  |
| **Adjustments - VAT** |  |  |
| Prior years – per note 22 page 47 FS |  | 375,209 |
| Current Year adjustment |  | 13,311 |
|  |  | **388,520** |

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| **6.** | **Highland Folk Museum** |
| 6.1 | At the meeting of 23 August 2016 Directors considered a report and related presentation on a proposed long term vision for Highland Folk Museum (HFM), including phased capital developments. The next of these, Phase 3, was outlined in detail as including new, enlarged café, shop and reception facilities, upgraded toilets and an exhibition gallery where artefacts from the collection would be displayed. Directors asked that a future Board meeting discuss resource implications of Phase 3 being taken forward. |
| 6.2 | Project scoping and some initial design work have already been undertaken. This projected the cost to be approximately £4m and concluded that, with operational modifications, it would be possible for HFM to remain open to the public during the construction phase.The key tasks in the preparation phase are:* Assembling the funding package, via multiple applications and fundraising
* Undertaking project sponsor role, effectively directing the design and build process
* Planning for visitor experience and services delivery during construction.
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| 6.3 | Partly informed by the experience of delivering Am Fasgadh, it is believed that the best results will be achieved if project preparation is undertaken in-house, led the Principal Cultural Manager, supported by the Museum’s Operation Manager, Curatorial Manager and HLH’s Estates Manager. The recent appointment to the long vacant Curatorial Manager post provides confidence that the resources are in place to take this project forward in-house during the fundraising and planning phase.  |
| **7.**7.1 | **Tenders Approved/Contracts Awarded**

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| The Design Concept | Fit out of Alness Library | Aug 16-Dec 16 |
| Fitness Training Scotland | Level 3 Award in Education and Training – Leisure staff | Aug 16-Jul 17 |
| Achins ookshop | Provision of Ad hoc library materials | Aug 16-Jul 19 |
| Bibliotheca | RFID machine for Highland libraries | Aug 16-Jul 20 |
| DUFI Art | Castle Viewpoint Creative Commission 1 Stairwell Graphic Art | Aug 16-Feb 17 |
| Less Than Nothing Productions | Castle Viewpoint Creative Commission 2 1st Floor Animation | Aug 16-Feb 17 |
| DUFI Art | Castle Viewpoint Creative Commission 3 1st Floor Graphic Art | Aug 16-Feb 17 |
| Fuzzy Duck | Castle Viewpoint Creative Commission 4 2nd Floor Animation | Aug 16-Feb 17 |
| DP Digital Media | You Time Promotional Films | Oct-Dec 16 |
| The Design Concept | Fit out of Grantown Library | Nov-Apr 17 |

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| **8.** | **Implications** |
| 8.18.28.3 | Resource Implications – there are no new resource implications associated with the recommendations of this report. Once the VAT position is clarified an adjustment may be required.Legal Implications – there are no new legal implications arising from the content of this report.Risk Implications – there are no new risks arising from the content of this report*.* |
| **Recommendations**It is recommended that Directors note:1. the current financial position of High Life Highland as detailed in **Appendix A;**
2. the financial results for the 7 months to October 2016 report a surplus of £18,273;
3. the projected final out-turn for the year is a surplus to budget of c £25K;
4. the award of contracts to The Design Concept (x2) Fitness Training Scotland, Achins Bookshop, Bibliotheca, DUFI Art (x2), Less than Nothing Production, Fuzzy Duck, DP Digital Media;
5. the update on VAT;
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7. approve the Financial Statements for the year end 31 March 2016 which are represented.
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Designation: Chief Executive

Date: 1 December 2016

**Summary Results - Consolidated** **APPENDIX A**

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| **Consolidated Results** | **Annual Budget** | **Budget YTD** | **Actual YTD** | **Variance YTD** |
| Income | 25,724,105  | 17,683,844  | 18,144,349  | 460,505  |
| Other Costs | (6,951,332) | (3,552,394) | (3,900,455) | (348,061) |
| Staff Costs | (18,772,773) | (11,004,867) | (11,099,038) | (94,171) |
| **Surplus (Deficit)** | **0**  | **3,126,583**  | **3,144,856**  | **18,273**  |

**Breakdown of Results – By Activity APPENDIX B**

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| **Sector** | **Annual Budget** | **Budget YTD** | **Actual YTD** | **Variance YTD** | **% Variance to YTD Budget** |
| Adult | (628,447) | (323,200) | (320,817) | 2,382  | -0.74% |
| Archives | (658,215) | (345,577) | (328,673) | 16,904  | -4.89% |
| Arts | (251,314) | (163,643) | (163,533) | 110  | -0.07% |
| Facilities | (2,015,472) | (943,521) | (941,689) | 1,832  | -0.19% |
| Libraries | (3,626,701) | (1,906,061) | (1,899,197) | 6,864  | -0.36% |
| Management | (2,567,416) | (1,228,229) | (1,237,580) | (9,350) | 0.76% |
| Museums | (848,724) | (537,776) | (509,007) | 28,769  | -5.35% |
| Outdoor | (116,028) | (67,679) | (96,369) | (28,689) | 42.39% |
| SLA | 12,684,086  | 9,871,100  | 9,871,100  | 0  | 0.00% |
| Sports | (547,587) | (370,724) | (371,415) | (691) | 0.19% |
| Youth work | (1,424,182) | (858,108) | (857,964) | 143  | -0.02% |
| **Surplus (Deficit)** | **0**  | **3,126,583**  | **3,144,856**  | **18,273**  |  |

**Breakdown of Variance - By Activity and Category Appendix B (Contd)**

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| **Sector** | **Variance YTD - Income** | **% Variance on YTD Budget** | **Variance YTD - Other Costs** | **% Variance on YTD Budget** | **Variance YTD - Staff Costs** | **% Variance on YTD Budget** | **Variance YTD** | **% Variance on YTD Budget** |
| Adult | (12,257) | -33.58% | 11,575  | -26.59% | 3,064  | -1% | 2,382  | -0.74% |
| Archives | 8,424  | 8.01% | (14,568) | 62.23% | 23,047  | -5% | 16,904  | -4.89% |
| Arts | 10,462  | 64.61% | (4,679) | 10.42% | (5,673) | 4% | 110  | -0.07% |
| Facilities | 185,820  | 3.27% | (97,623) | 7.72% | (86,365) | 2% | 1,832  | -0.19% |
| Libraries | 10,908  | 14.13% | (23,921) | 9.07% | 19,877  | -1% | 6,864  | -0.36% |
| Management | 20,450  | 131.93% | (34,081) | 7.53% | 4,280  | -1% | (9,350) | 0.76% |
| Museums | 48,875  | 13.44% | (52,068) | 12.86% | 31,961  | -6% | 28,769  | -5.35% |
| Outdoor | (24,324) | -50.25% | (5,907) | 17.02% | 1,542  | -2% | (28,689) | 42.39% |
| Sports | 98,552  | 18.14% | (58,762) | 124.64% | (40,482) | 5% | (691) | 0.19% |
| Youth work | 113,595  | 495.27% | (68,028) | 106.54% | (45,432) | 6% | 142  | -0.02% |
| **Surplus (Deficit)** | **460,505**  |  | **(348,061)** |  | **(94,181)** |  | **18,273**  |  |

**APPENDIX C**

**Breakdown of Grant Activities for Sports and Youth work included in Appendix B**

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| **Grant –Related Activity** |
| **Sector** | **Income (£)** | **Staff Costs (£)** | **Other Costs (£)**  | **Surplus (£)** |
| Youth work | 44,011  | (4,200) | (16,115) | 23,696  |
| Sports | 67,373  | (34,658) | (28,251) | 4,464  |

**Variances over £5,000**

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| **Sector** | **Variance** | **Note** |
| Archives | 16,904 | The majority of this positive variance is due to an archivist vacancy at the Highland Archive Centre for the first 7 months of the year. This has been partly offset by the cost of salary increments and additional expenditure on equipment.  |
| Museums | 28,769  | The Highland Folk Museum Reported a surplus to budget of £31K for the season up to Oct ’16.  |
| Outdoor | (28,689) | A structural Budget issue has been identified of £30K and is being dealt with in the Budget Savings required for 2016/  |